



Public Employee Retirement System of Idaho

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:35 a.m., August 21, 2001. The following members were present:

Jody B. Olson  
Dennis L. Johnson  
J. Kirk Sullivan

Trustees Pamela I. Ahrens and Susan K. Simmons were absent and excused. Executive Director Alan H. Winkle, Deputy Director Ted Aho, Deputy Attorney General Rene Martin, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Doug Dorn	Dorn, Helliesen & Cottle
Rod MacKinnon	Mountain Pacific Investment Advisors
Bruce Reeder	Mountain Pacific Investment Advisors
Brent Nye	Boise School District
Brian McGrath	DB Fitzpatrick & Co.
Dennis Fitzpatrick	DB Fitzpatrick & Co.
Drew Black	DB Fitzpatrick & Co.
Robert Schmidt	Milliman USA
Eric Lindner	GMAC Commercial Mortgage Corporation
Geoffrey Lea	GMAC Commercial Mortgage Corporation
Mario Giannini	Hamilton Lane
Lucinda Smith	Mellon Trust
Wendy McCall	Russell/Mellon Analytical Services
Jennifer Carrington	Legislative Services Office
Richelle Sugiyama	PERSI
Cecile McMonigle	PERSI
Rhonda Yadon	PERSI
Bob Crane	ETI
Janice Schweizer	ETI

## OLD BUSINESS:

Approval of the Minutes: By motion duly made by Trustee Sullivan and seconded by Trustee Johnson, the Board unanimously approved the minutes of the June 26, 2001 regular meeting of the Retirement Board and the minutes of the June 22, 2001 and July 9, 2001 Investment Committee meeting minutes which had been reviewed by Trustee Simmons.

## PORTFOLIO

Monthly Portfolio Mr. Maynard officially welcomed Investment Officer Richelle Sugiyama to PERSI. She formerly worked with Dorn, Hellieson and Cottle, Inc. Mr. Maynard said he intends to present a review of the investment policy statement to the Board in October. No substantive changes are expected, but there will be some minor wording changes. After the discussion of the COLA and the funding policy, he will bring the investment policy to the Board for review and re-adoption as it has been several years since the last review.

Referencing copies of another retirement funds review that he had conducted, Mr. Maynard said that Board uses a detailed bottom-up review and decision making process. While PERSI uses a different approach, there is no topic which that Board sees that the PERSI Board does not. Chairman Olson commended Mr. Maynard on his involvement nationally and internationally, noting the importance of staying connected even though Idaho is a rural area. He encouraged Mr. Maynard to continue to do that. Mr. Maynard replied that he has found that when viewing other people's problems, you see your own in a different light.

Mr. Maynard then reviewed his May 21, 2001 PERSI Investment Report which contained the following CIO Comment:

The current earnings reporting cycle has not produced optimistic news. Most companies have reported continuing deterioration and the mood generally has pushed recovery expectations back to the first quarter of next year. As a result, the equity market is down around 2.5%-4% this fiscal year.

The portfolio is still in a slightly defensive position. Over the past months, the portfolio has captured about 90% of the market return – good when the market declines (thus we only lose .9% for every 1% market decline), but that also means that we will not capture any near-term sudden market rises. Growth styles are still suffering, with Columbus Circle recently having the worst relative and absolute performance.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. There are no significant organizational issues with any of the managers.

He told the Board that his monthly report will now contain the manager information previously contained in the Dorn, Hellieson, Cottle reports. The first few pages of the report will summarize the activity; the other pages will provide details. As a risk control measure, Richelle will ensure that at the end of each month, each manager is positioned the way with the exposures we expect and reacting to the market as we expect. During the month, we have a daily check to ensure the fund has not moved out of the position that we expect. He said the report can be read

much like “peeling an onion.” If the first few pages raise questions, then reading further should provide the needed detail.

Ms. Sugiyama and Doug Dorn will conduct an on-site manager visit with Columbus Circle. He said the Idaho Commercial Mortgage program has been an excellent performer over the long term and is an excellent place for PERSI to have assets.

Mellon Trust Quarterly Report: Lucinda Smith and Wendy McCall had met with PERSI staff on August 20. In response to a question from the Chair, Ms. Smith said daily valuation is working well. The portfolio is easier to track when valued daily and is easier to see when something is off balance. The 401(k) is also going well. In the Choice Plan, when members invest in the total fund option, they receive a valuation just as if it were one of the other fund options. There is internet access to check or to change allocations. There was a brief discussion of “straight-through processing” which will become standard in the investment business and will have a major impact.

Ms. McCall reviewed the report for the quarter ending June 30, 2001. Performance Review Highlights included these comments:

“...PERSI’s total fund returned 3.24% for the quarter and ranked at an average 53<sup>rd</sup> quartile in TUCS Public Fund Master Trust Universe and ranked at a slightly lower than average 60<sup>th</sup> quartile in the TUCS All Master Trust Universe....PERSI’s fund has outstanding comparative performance as well as outstanding relative performance over extended time periods. The PERSI fund has a better risk/return tradeoff than the PERSI target benchmark for the 3,5,7 and 10-year periods. However, the risk/return tradeoff is not as beneficial as it has been in the past. The risk ranking is remaining the same while the return ranking is trending down. The asset allocation of the fund when compared to its target allocations still remains underweighted in domestic equity and overweighted in international equity by around 5%.”

She reviewed returns of PERSI compared to other public funds and discussed the different fund allocations of those funds. The investment style of Mountain Pacific, a value style – growth at a reasonable price –has been in favor in the markets. Tukman is doing well – they also have a value orientation which is being rewarded. Barings, with a growth bias, is having a difficult time in these markets

Alternative Investment Review: Mario Gianinni reviewed his March 31, 2001 report which had previously been furnished to the Board. It reported valuations and performance calculations, an overview of each private equity and real estate investment, a listing of the portfolio companies held by the private equity partnerships, an investment portfolio assessment of the performance to date, graphs depicting various key diversification areas and a summary of cash flow activity for the quarter ended March 31, 2001.

He discussed the investments that were not performing in line with expectations, saying McCown De Leeuw & Co IV’s investment I E-M Solution has been completely written off. Zseiger is writing down investments, but is continuing to invest. There is good news in much of this investment allocation which was shown in performance summary tables.

A new commitment through Apollo, Highway 12 and Sawtooth as well as one we're looking at -- T.L. Lee where we have an opportunity to purchase an existing investment. In this market, if people want out of an investment, it can provide a good opportunity for us. Chairman Olson thanked Bob, Sue and Doug for their work finding good Idaho companies for some of our investments. Answering a question from Trustee Johnson, Mr. Gianinni said we have about \$30 million committed to Idaho companies.

Idaho Commercial Mortgage Program Review: Eric Lindner and Geoffrey Lea discussed their annual review of the program. The report found that the PERSI commercial mortgage program administration, management and performance for calendar year 2000, is considered to have equaled or exceeded the performance of similarly focused commercial real estate mortgage/whole loan origination and investment programs. The review also concluded that the general business and mortgage investment activities for 2000 and the resulting performance were consistent with previous year-end review findings. The review process evaluated portfolio and loan specific performance quantitatively in relation to not only industry standards, but also to 2000 performance objectives that were articulated within DBF's 2000 forecast.

These loans are recourse loans where the applicants' personal assets are part of the repayment guarantee. There was discussion regarding the geographic and industry targets and the actual investments. Having D.B. Fitzpatrick service their own loans has resulted in fewer delinquencies, as late payments can be tracked quickly.

Brian McGrath and Dennis Fitzpatrick then reviewed the long term investment objectives, the investment performance, and their economic outlook and investment strategy for 2001. Their report had previously been furnished to the Board. They expect economic recovery in the next six months at the national level.

Other Investment Business: Chairman Olson opened the floor to comments from managers who were attending the meeting. Consultant Doug Dorn noted that many of the younger folk in the investment companies are experiencing their first bad markets. Some of the older people are retiring, so in some cases there are higher than normal changes in staff; this is important to monitor. Rod MacKinnon said he agreed with Mr. Maynard that the market is just bouncing along -- none of the sectors appear to be more or less attractive than the others, but seem directionless. Valuations are reasonable for the most part, but there are still expensive stocks in the market. The consumer is still holding, and if that continues for the next six months, he believes the economy will be okay.

Mr. Maynard said the Investment Subcommittee has approved the Thomas Lee investment in the amount of \$15.

Other Business: As the meeting paused for a short break, Chairman Olson noted that Trustee Johnson's company, United Heritage Insurance, will dedicate their new building in Meridian on August 22 at 10:30. Trustee Johnson invited everyone to the open house and to tours of the building.

## COMMUNICATIONS

Financial Planning Program - Communications Officer Becky Crowther introduced Bob Crane and Janice Schweizer of Educational Technologies, Inc. They demonstrated the website program that is available to PERSI members. The program regularly pulls data from the PERSI

system to estimate the monthly benefit for various scenarios the member creates. The program also adds social security benefit information and Choice Plan data, as well as other income keyed in by the user. Mr. Winkle said we are very proud to be able to offer such a planning tool to our members. Chairman Olson asked Ms. Crowther to monitor usage and member feedback on the program.

## FISCAL

Expense Reports: Financial Officer James Monroe introduced Ms. Cecile McMonigle as the new Portfolio Senior Accountant. She has worked for several months as a temporary employee in the fiscal area and is a welcome permanent addition to the staff. He told the Board that the Carnahan Law Offices will be relocating and that our IT and Audit Project staff will be using that space on the second floor starting around January 2001.

In response to a question from Chairman Olson, Mr. Winkle said we are working with state architects, developing the options on the 820 building. The current options are to do nothing, to renovate, or tear it down and build new. We should have the report in six to eight weeks.

The audit staff from Deloitte and Touche are on site for the FY 2001 audit. The audit field work is scheduled to be completed August 31<sup>st</sup>. Mr. Monroe told the Board that our DFM analyst Marta Watson left her position to take a teaching position at Bishop Kelly High School. In the interim, Judie Rowbury, our former DFM analyst, is working with PERSI. We are not sure if we will be one of her long-term assignments or if we will be reassigned to another analyst. Mr. Winkle added that we also have a new liaison with the Governor's office; his name is David Lehman.

Because there was no July, 2001 regular Board meeting, Mr. Monroe reviewed the Portfolio and Administrative Expense Reports for the months of June and July 2001 as well as the Out-of-State Travel Report. Chairman Olson said Trustee Simmons had reviewed the reports.

Senior Accountant Rhonda Yadon reviewed the unaudited Financial Statements for the fiscal years ended June 30, 2001 and 2000 and the Retiree Medical Sick Leave Reserve statement for the same time period. There was nothing unusual to report. She said the contribution amount is lower because employers are using up their gain sharing credits.

Mr. Monroe discussed the PERSI budget request for FY 2003. The trustees had previously reviewed the report. By motion duly made by Trustee Johnson seconded by Trustee Sullivan and unanimously approved, the Board approved the budget for FY2003 and directed staff to submit it.

## EXECUTIVE DIRECTOR

Legislative Idea Discussion and Approval: Mr. Winkle discussed the August 14, 2001 memorandum to the Board from Deputy Attorney General Brad Goodsell regarding 2002 Legislative Ideas. Discussing of the two items – providing for the joint payment of Base and Choice Plan Contributions and removing the “active member” limitation on purchase of service, Mr. Winkle said DFM and the Governor's office have reviewed these and have indicated their

approval. The five-day forwarding of contributions has been discussed at focus group meetings and employers have been advised that joint payment of contributions is what we need. By motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the Board approved the submission of these “legislative ideas” and directed staff to draft appropriate legislation.

Authority to Appoint a Hearing Officer: As requested in an August 13, 2001 memorandum from Deputy Attorney General Brad Goodsell, the Board authorized the Executive Director to appoint a hearing officer from the approved list of hearing officers if informal proceedings are not effective in reaching a resolution in the matters of Bruce Jones v. PERSI and Frank E. Richardson v. PERSI.

Status Update: The Board had previously received the monthly status memo that summarized the projects in which PERSI is involved. These include the Galena Technology project which is in the last phase; gain sharing record keeping to add loan capabilities and transfer the Scudder plan into the PERSI Choice Plan, gain sharing education, working with employers as their capability to report voluntary contributions becomes reality, preparation of the actuarial reporting data and PERSI annual statements, web enhancements, intranet/online guideline for staff, data cleanup, business resumption plan, 820 building issues and the retiree medical advisory committee.

New Employer: The Hidden Springs Charter School, Inc. is a new PERSI employer effective March 5, 2001. Charter schools are mandated into the PERSI system. Hidden Springs is the tenth charter school in Idaho.

#### FUTURE BOARD MEETINGS

Trustee Johnson invited the Board to hold the October meeting at the new office of United Heritage in Meridian. Chairman Olson will be absent and Trustee Sullivan will chair that meeting. United Heritage is located at 707 E. United Heritage Court in Meridian.

Tuesday, September 25, 2001 , 8:30 a.m., Boise - PERSI office

Tuesday, October 23, 2001, 8:30 a.m., United Heritage Office – Meridian, Idaho

Tuesday, November 27, 2001, 8:30 a.m., Boise - PERSI office

Tuesday, December 18, 2001, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to conduct, by motion duly made by Trustee Johnson, seconded by Trustee Sullivan and unanimously approved, the meeting was adjourned at 11:06 a.m.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director